#### DESCRIPTION AND JUSTIFICATION

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INTRODUCTION AND SUMMARY

#### SECTION 1

#### INTRODUCTION AND SUMMARY

This Description and Justification is designed to provide an overview of the Lufkin-Conroe Telephone Exchange, Inc. access service tariff. The following is a general discussion of the company, tariff material and an overview of the cost and rate development methodology.

# Description of Lufkin-Conroe Telephone Exchange, Inc. and the Serving Area

The issuing carrier of this interstate access tariff is Lufkin-Conroe Telephone Exchange, Inc. (hereinafter referred to as LCTX). LCTX developed from three different telephone companies. Lufkin Telephone Exchange officially began business in 1898 and was incorporated in the state of Texas in 1910. Conroe Communications Company began providing service in the Conroe area in 1899 and was purchased by the owners of the Lufkin Telephone Exchange and incorporated as the Conroe Telephone Company in 1929. The Alto Telephone Company, the third company, was purchased in 1963. Ownership of the entities was consolidated in 1969 Lufkin-Conroe Communications Company. to form A reorganization in 1985 merged the three companies to form one corporation, Lufkin-Conroe Telephone Exchange, Inc.

LCTX furnishes telecommunications services for over 71,000 subscriber access lines in a service territory which covers a 1,400 square mile

area in LATA 560. Our service territory spans nine counties and contains the following sixteen exchanges:

Alto

Grangerland

Apple Springs

Hudson

Central

Lake Conroe

Conroe

Lufkin

Cut-N-Shoot

Montgomery

Diboll

Riverbrook

Etoile

Walden

Fuller Springs

Wells

The corporate offices are located in Lufkin, Texas. Lufkin is the county seat of Angelina County and is centrally located in East Texas 160 miles southeast of Dallas and 120 miles northeast of Houston. The exchanges of Alto, Apple Springs, Central, Diboll, Etoile, Fuller Springs, Hudson, Wells and, of course, Lufkin are located in close proximity to the city of Lufkin.

The area's economy is supported primarily through manufacturing paper

Eighty-six miles to the south of Lufkin are the remaining exchanges of Conroe, Cut-N-Shoot, Grangerland, Lake Conroe, Montgomery, Riverbrook and Walden. These exchanges are considered to be part of the Northern portion of the Houston Economic Region and are located approximately 35 miles north of downtown Houston and just minutes from Houston Intercontinental Airport. Conroe is the county seat of Montgomery County. Approximately 90 percent of Montgomery County is provided service by LCTX.

The urban area is home to diverse manufacturing businesses such as Ball Metal Container, Crown Cork and Seal, Texaco (Chemical Division), Maverick Tool, Louisiana Pacific and Owens Corning Fiberglass. Service-oriented businesses include two major hospitals, the Conroe Independent School District and an Army Reserve Helicopter Unit.

#### Tariff Support Material

The supporting material is submitted pursuant to Part 61.38 of the Commission's Rules and Regulations, and in compliance with the Commission's Order released February 18, 1993 regarding the Requirements for Cost Support Material to be filed with 1993 Annual Access Tariffs.

#### Summary of Cost and Rate Development

LCTX has used a multi-step process to determine the interstate revenue requirement and associated rates for the 1993 test year. The last six months of the Company's 1993 budget, and the first six months

of the 1994 budget were used to develop the cost studies based upon the Part 36 and Part 69 rules of the Commission. Demand projections were completed in order to determine the Company's rates. Detailed descriptions of the process are contained in other sections of this REVENUE REQUIREMENT

#### SECTION 2

#### REVENUE REQUIREMENT

#### 1993 Budget Overview

Per Order DA 93-192, "In the Matter of Commission Requirements for Cost Support Material To Be Filed with 1993 Annual Access Tariffs," released: February 18, 1993, Lufkin-Conroe Telephone Exchange, Inc. is classified as a Tier 2A company. Tier 2A companies must develop rates based on prospective cost support (test year). The test year is July 1, 1993, through June 30, 1994. Because the test period is a split year, it was necessary to develop the forecasted budget in two sections: July 1, 1993, through December 31, 1993, and January 1, 1994, through June 30, 1994. This was necessary due to different separation rules being applicable to each of the two periods.

Lufkin-Conroe Telephone Exchange, Inc. complied with this order in preparing the forecasted budget formatted in the Part 32 account structure. Different budgeting methods were used to forecast balance sheet accounts and expense accounts.

#### Balance Sheet Accounts - July 1, 1993 - December 31, 1993

Lufkin-Conroe Telephone Exchange, Inc. prepares a construction budget each year for the following five years. The 1993 construction budget,

by quarters, was added to year-end total company account balances and a quarterly proportion of average prior years' retirements were subtracted, in forecasting 1993 quarterly balances for telephone plant.

Forecasted quarterly telephone plant reserve balances were developed by adding to year-end total company account balances, budgeted quarterly depreciation expense and subtracting a quarterly proportion of average prior years<sup>1</sup> retirements.

Forecasted depreciation expense was calculated by multiplying the applicable depreciation rates by the forecasted plant balances for the appropriate quarters.

#### Balance Sheet Accounts - January 1, 1994 - June 30, 1994

The 1994 construction budget, by quarters, was added to forecasted 1993 year-end total company account balances and a quarterly propertion of average nring years! retirements were subtracted in

Forecasted depreciation expense was calculated by multiplying the applicable depreciation rates by the forecasted plant balances for the appropriate quarters.

#### Expense Accounts - July 1, 1993 - December 31, 1993

The expense budget was developed by the compilation of expense category amounts budgeted by each respective department responsible for a specific expense category.

#### Expense Accounts - January 1, 1994 - June 30, 1994

The expense budget was developed by the compilation of expense category amounts budgeted by each respective department responsible for a specific expense category.

#### Part 64 Adjustments

CC Docket No. 86-111 deals with the accounting and cost allocation rules for separating the costs of regulated telephone service from the costs of a telephone company's non-regulated activities. Non-regulated balances for balance sheet and expense accounts were budgeted for the test year.

Lufkin-Conroe Telephone Exchange, Inc. identifies each account number as being totally regulated, non-regulated, or common. Account numbers that accumulate costs that are not directly identifiable and which are

labeled as common have appropriate allocation factors developed and applied each month. The allocation factors for December, 1992 were applied to the 1993 and 1994 total company plant and expense budget balances for each "common" Part 32 account. The regulated total company balances were used for cost study purposes.

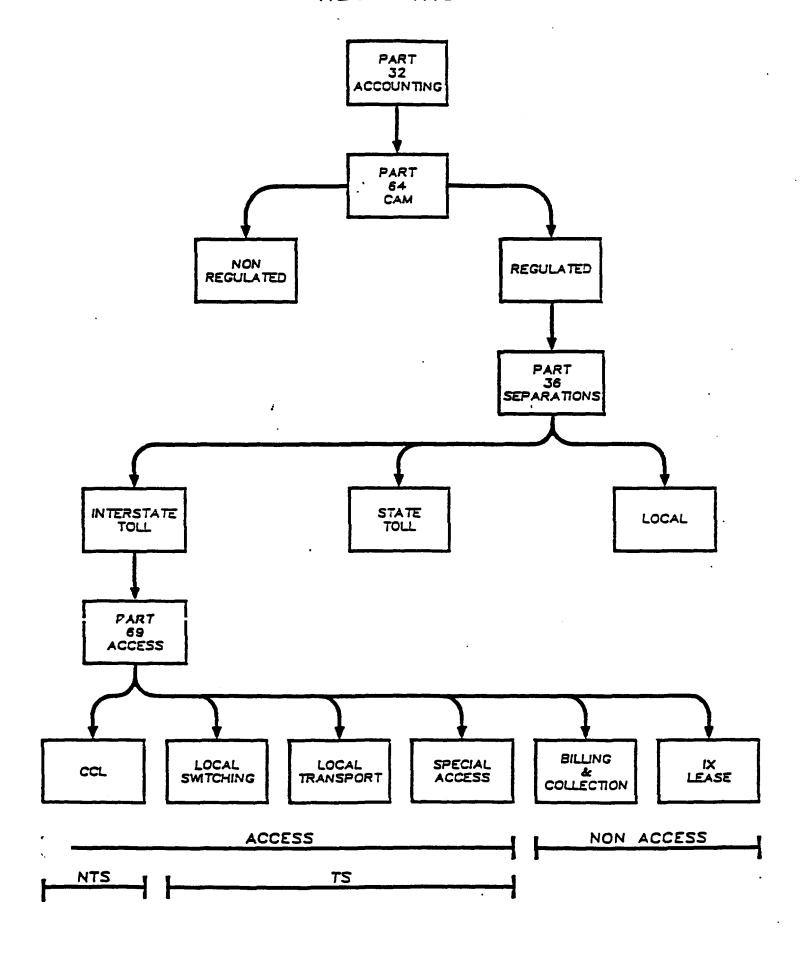
#### Part 36 Jurisdictional Allocation

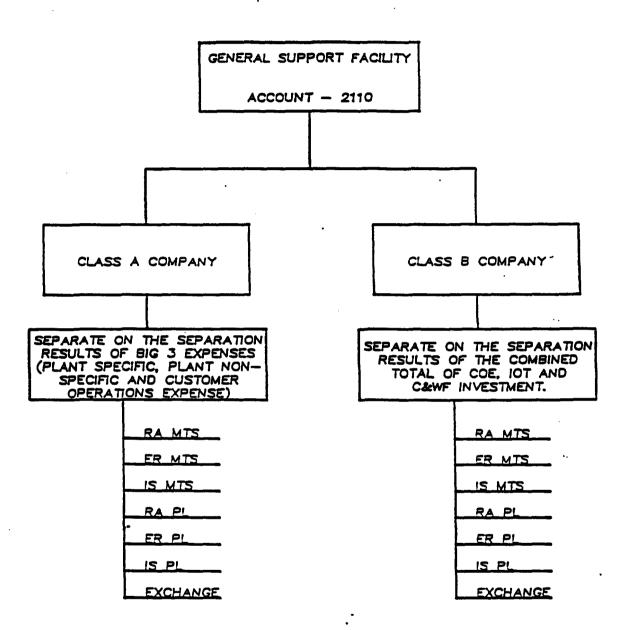
The Company performs jurisdictional separations through the use of a mechanized system which incorporates Part 36 of the FCC Rules and Regulations. The mechanized system is used to derive interstate allocations of property costs, revenues, expenses, taxes, and reserves. This system is the basis for the development of the July 1, 1993, thru June 30, 1994, access costs.

The interstate portion of property costs, revenues, expenses, taxes, and reserves, which is the output of the separations systems, is the input to the Part 69 cost allocation system. In the cost allocation system, interstate data is assigned and apportioned to the cost elements.

Included are flow charts which reflect the basis of the separations procedures used in the mechanized system for the allocation of property costs, revenues, expenses, taxes, and reserves.

### REGULATION

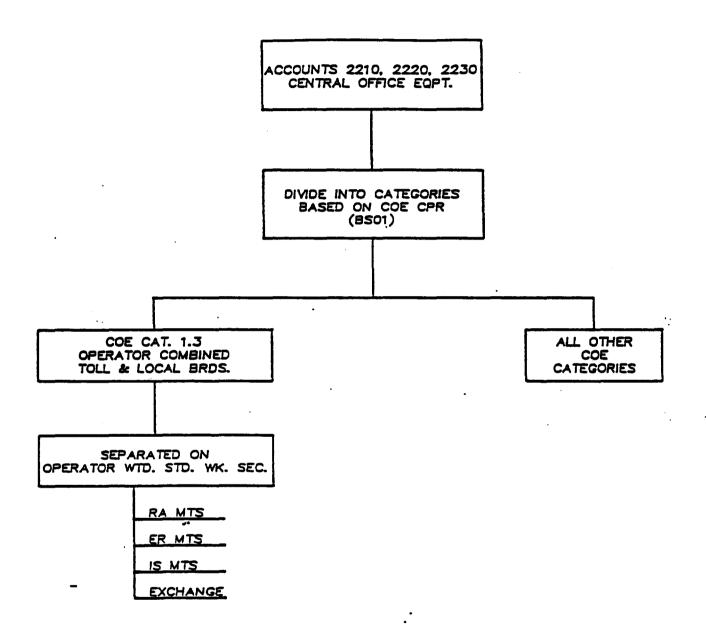




ACCOUNTS 2210, 2220, 2230 CENTRAL OFFICE EQPT.

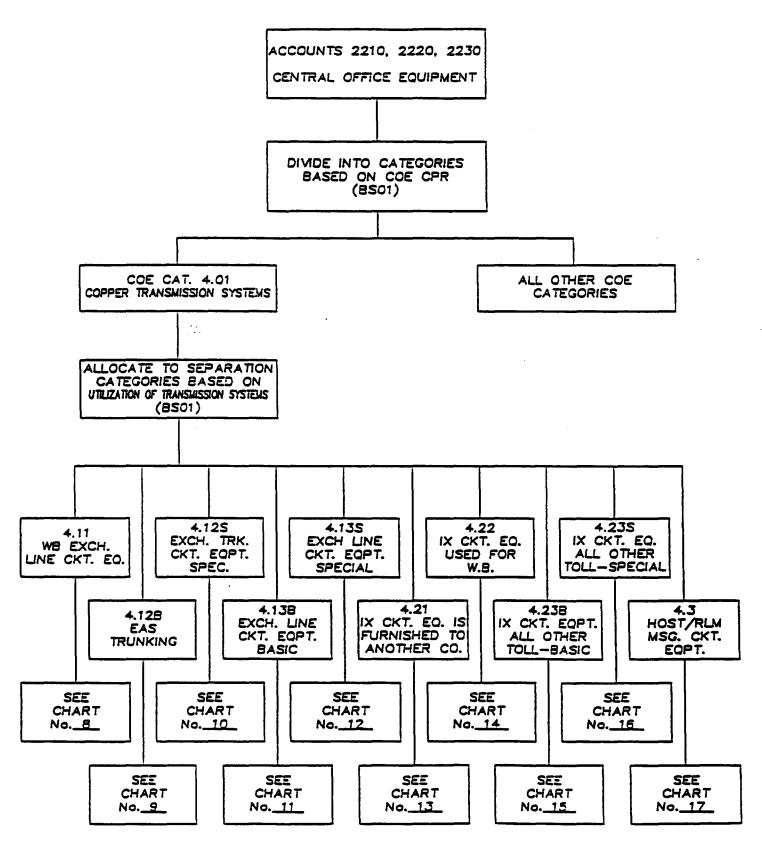
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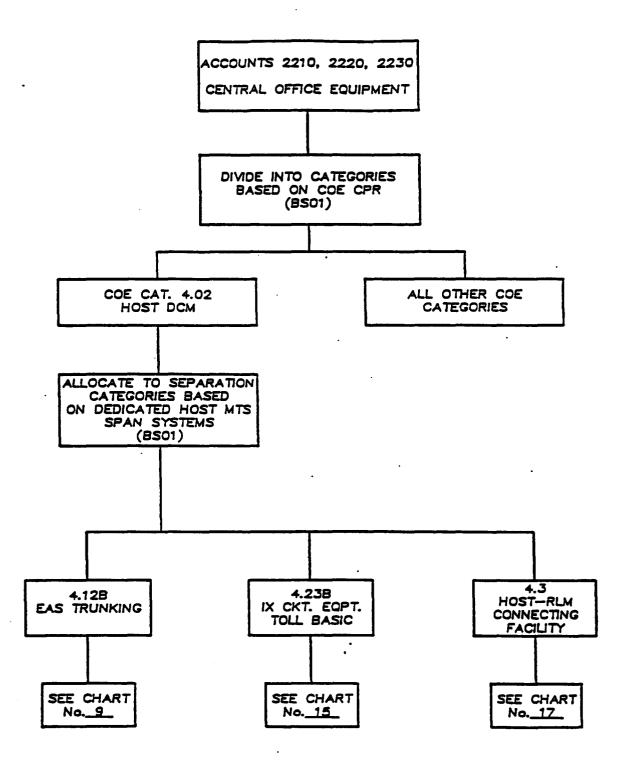
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CAT. 3	SEE CHART No. 4
CAT. 4.01	SEE CHART No. 5
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CAT. 4.03	SEE CHART No. 7.0
CAT, 4.04	SEE CHART No. 7.1
CAT. 4.05	SEE CHART No. 7.2
CAT. 4.06	SEE CHART No. 7.3
CAT. 4.11	SEE CHART No. 8
CAT. 4.129	SEE CHART No. 9
CAT. 4.12S	SEE CHART No. 10
CAT. 4.138	SEE CHART No. 11
CAT. 4.135	SEE CHART No. 12
CAT. 4.21	SEE CHART No. 13
CAT. 4.22	SEE CHART No. 14
CAT. 4.238	SEE CHART No. 15
CAT. 4.23S	SEE CHART No. 16
CAT. 4.3	SEE CHART No. 17
CAT. MOBILE	SEE CHART No. 18
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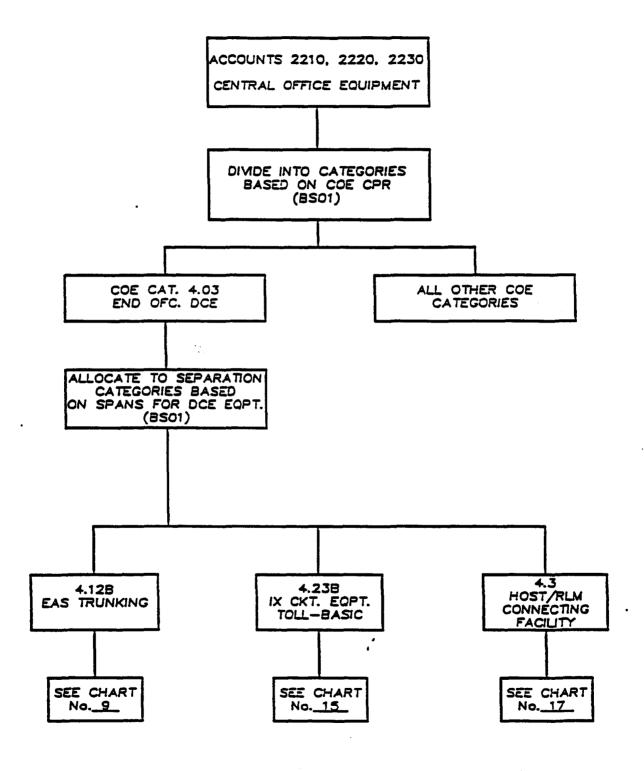
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LCTX
PT 36 JURISDICTIONAL SEPARATIONS





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